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January 11, 2023

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

RE: Docket No. OP- 1793
Principles for Climate-Related Financial Risk Management for Large Financial
Institutions

Dear Governors of the Federal Reserve System:

I would strongly recommend that the Federal Reserve not attempt to monitor climate risk in the financial sector.

Simply put, after having missed the rise in inflation, the Federal Reserve's social license has been weakened, and could be severely damaged if it is seen to be pursuing a politically motivated policy which is outside of its mandate. I highlight 4 points:

1. The Federal Reserve system can only focus on its dual mandate of maximum employment and price stability. Climate change is real, though the scope of its impacts unknown. Other areas of government are better placed to regulate the sectors contributing to climate change and/or incentivize solutions for mitigation or innovation.

2. The capabilities of the Federal Reserve are unclear. The risk of inflation has been widely recognized as the biggest risk to the economy. The Federal Reserve totally missed, and then mis-read, the rise in inflation that has gripped the U.S. economy over the past 18 months. The Fed missed inflation despite the fact everyone knew this was the key risk to the economy. If the Fed, with its hundreds of economists, was surprised by inflation, how can it be trusted to delve into climate?

3. A focus on climate would risk distracting the Federal Reserve from its core supervisory functions. The recent spike in U.K. interest rates and collapse of the pound, triggered by the irresponsible use of liability driven investment (LDI) strategies by U.K. pensions funds, is a sobering example of what happens when a regulator loses its focus.

The Bank of England (BOE) has been very vocal about the risks of climate change to the financial system. What exactly those risks are was never clear. While the BOE was focused on the long-term risks of climate change, it somehow missed risky behaviour from domestic pension funds. The crisis brought down a government, raised interest rates, and lowered the value its currency. I would argue the more lasting damage has been to the BOE's reputation.

4. The Fed must defend its independence. The debate around climate policies sadly has become politicized. Moreover, over the last 12 months it has shifted, as for the first time in a generation the world has seen the need for a supply of energy that in addition to being clean is also secure, reliable and affordable. The Fed's independence and social licence both would be at risk if it became associated with one side of a partisan debate or found itself on the wrong side of a new consensus of how to balance the security, reliability, affordability and cleanliness of the country's energy supply.

I hope you find these thoughts helpful.

Respectfully,

A handwritten signature in black ink, appearing to read 'Paul Bernard', with a stylized, cursive script.

Paul Bernard